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The Province of Alberta

IN THE MATTER OF THE PUBLIC INQUIRIES ACT

AND IN THE MATTER OF O/C 290/73, AN INQUIRY INTO THE NEW TOWN OF GRANDE CACHE

N. R. CRUMP, Esq.,	Chief Commissioner
T. H. PATCHING, Esq.,	Commissioner
DAVID GRAHAM, Esq.,	Commissioner

W. A. Stevenson, Esq.,	Commission Counsel
D. O. Sabey, Esq., Q.C., and J. G. Martland, Esq.,	For McIntyre Porcupine Mines Ltd.
Lorne Ingle, Esq.,	For United Steelworkers of America.

DATE: September 27, 1973

HELD AT: Edmonton, Alberta.

VOLUME XIII

(Pages 1295 - 1388)

Supreme Court Reporters
EDMONTON, ALBERTA

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I N D E X

VOLUME XIII

September 27, 1973

WITNESSES:

ROBERT BERTHEAU FULTON

Examination by Mr. Stevenson 1295
Examination by Mr. Ingle 1379

EDMONTON, ALBERTA

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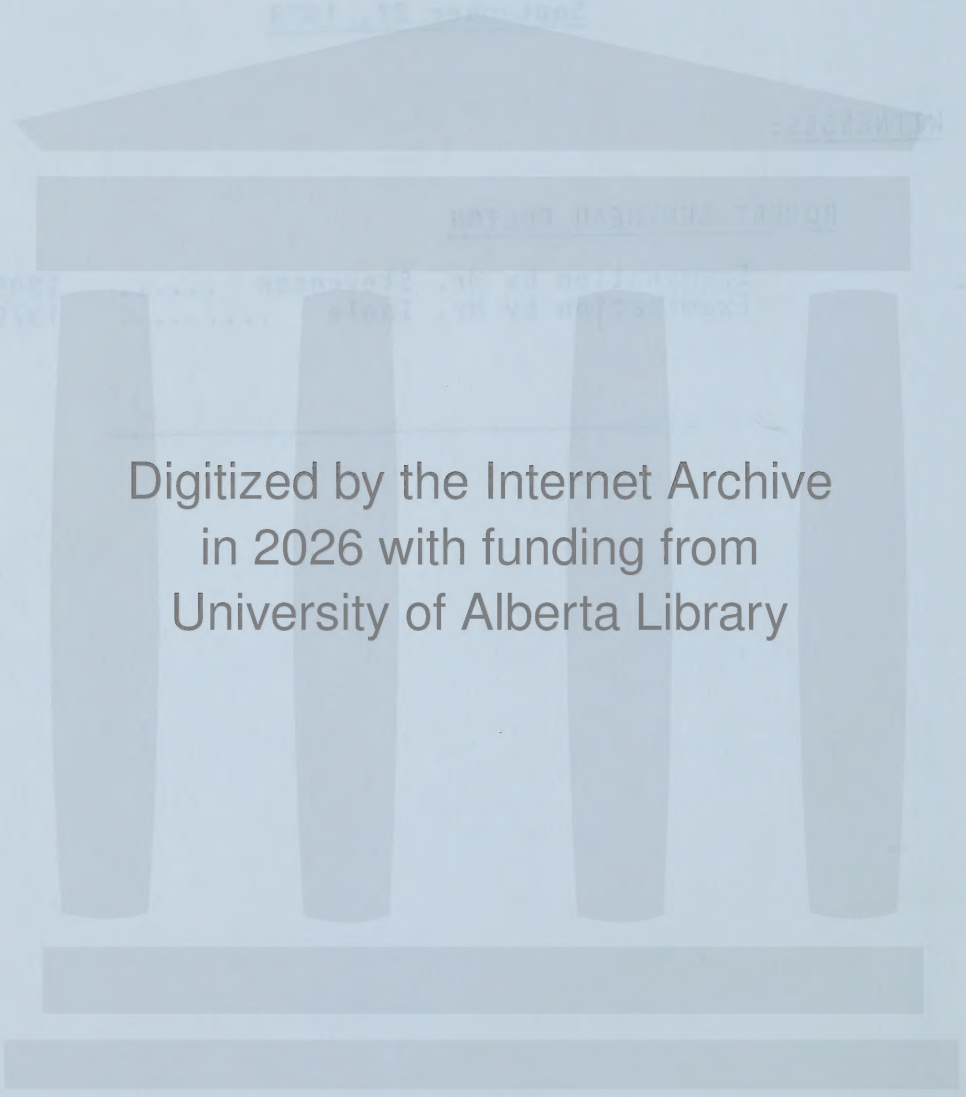

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PROCEEDINGS before the Board of Commissioners, at the Law Courts, City of Edmonton, Province of Alberta, commencing at 9:54 a.m., Thursday, September 27th, A.D. 1973.

MR. CRUMP: Gentlemen, I am sorry that a delay has occurred beyond our normal starting time, but there has been a procedural matter that we wanted to discuss with counsel for the respective parties. We are now prepared to carry on.

Mr. Stevenson, would you call your first witness, please.

MR. STEVENSON: Mr. Fulton.

ROBERT BERTHEAU FULTON, sworn, examined by Mr. Stevenson:

Q Mr. Fulton, you're the President of McIntyre Porcupine Mines Limited?

A That is correct.

Q And you have held that position since the 14th of June, 1972?

A That's right.

Q And you have had, I gather, no connection with McIntyre Porcupine before that?

A That is correct.

Q And who was your previous employer?

A Newmont Mining Corporation of New York.

Q N-e-w --

A N-e-w-m-o-n-t.

Q And what kind of mining were they involved in?

A Non-ferrous and precious metal mining, and they also have an

A (continued) oil company.

Q And how long had you been with them?

A 25 years.

Q And I take it that you're a graduate mining engineer?

A I am, yes, University of Nevada.

Q And have you been in the type of mining that you have described ever since your graduation?

A Yes, even prior to that.

Q I take it you had no experience in coal mining at all?

A That is correct, before joining McIntyre.

Q Now, you became the President on June 14th, 1972; who was in charge of the coal operations then?

A Mr. Richardson, he was President of the coal company.

Q And once you became President of McIntyre to whom did Mr. Richardson report?

A To me.

Q Now, when you came on the site the company was carrying on underground mining operations at mines No. 2 and 5, and surface mining at 8, is that correct?

A That is correct.

Q And 5 and 2 were considerably below their planned production output?

A Yes, substantially. I think for the entire year, if I recollect the figures correctly, 2 was around 75 per cent of target and 5 about 62 per cent.

Q Now, when you came into the presidency did you begin an investigation of the background relating to the coal contract,

Q (continued) the various feasibility studies, production reports and the like?

A Yes, necessarily so, and spent considerable time at Grande Cache during the first two months that I was on the job.

Q Did you consider that you had thoroughly familiarized yourself with the background as best you could?

A I don't think I am yet thoroughly familiar on all of the background, but I did the best I could, and put in a great deal of time in trying to understand the problems.

Q Now, did you see some difficulties in the No. 5 mine at an early stage?

A Yes, there wasn't any question of it, and the local management was aware of it too; very serious roof problems, heaving conditions and so forth, and I think it was the mine that was getting the greatest attention when I first came on the scene.

Q And did you form an early conclusion that there would have to be some change in the balance between strip mining and underground mining?

A Well, I would say that evolved simply because of the daily production records of the No. 8 compared to the results being achieved in the two underground mines. The latter were up and down and the normal problems that are encountered in underground mining versus open pit and it became more and more apparent that for the dependable production of coal that was required to meet these contractual commitments, that we should pay as much attention and address ourselves to finding more strip coal in the areas that we were mining at the present time so that we could improve the production, and this necessarily meant that more of the coal would come from the strip mine if we succeeded in finding these additional tonnages.

Q The decision then to, or the movement towards finding more strip development was partly predicated on the production control, would that be correct?

A Yes, and when the contract with the Mannix Company was brougt into No. 8, they were more or less given the guideline of finding coal with stripping ratios in the order of two and a half to one. These are bank cubic yards related to long tons of coal and it appeared to us that more coal would be available at possibly moderately higher stripping ratios so we embarked on drilling flanks of anticlines there to see if we could find additional strip coal and augment production from No. 8.

Q And did you also instruct serious consideration be given to No. 9 to supplement the quantities for the Japanese contract?

A This was necessary because of the limited life of No. 8 there. At the time I was introduced to this very large scheme for development of No. 9 had been formulated and presented to the Japanese and become the subject of contract negotiations, all that has been testified to previously.

The Japanese, it seemed to me, had correctly assessed this as not an economic proposition if anything like prevailing coal prices, so we took the work that had been done previously and sorted out the low stripping ratio tonnages in the entire mine to see what sort of a combination of stripping ratioand tonnage could be developed, which in effect would supplement the open cut coal production from No. 8 when that mine would be exhausted at that time, we thought it would be exhausted prior to the end of this year.

Q That is No. 8?

A That is correct.

Q You have since, I assume, increased the stripping ratio?

A Yes, we have. We found some coal in the existing No. 8 site and we also developed some tonnage on the west ridge which was a secondary fold in the No. 8 mine area.

Q So the life of No. 8 now goes into January of next year?

A January of 1974, correct.

Q Will there be a time when you are not going to have strip coal at all?

A You mean, am I going to see that personally or is this --

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Q --- in January or February ---

A --- oh no, definitely not, no. In addition to the developing the work at No. 8, we also assessed the Barrett, this is a structure northeast of the McEvoy where No. 8 mine is sited and we found a very favourable tonnage of open pit coal there, it is what we coal dip slope, in other words the coal dips with the mountain side so we have favourable stripping ratios and this tonnage will supplement No. 8 while No. 9 is being put on stream, we expect coal from No. 9 as we have reported in the second quarter of 1974.

Q The consideration of moving to more strip, was cost also a factor in that?

A Oh, indeed, yes, there is no question of that.

Q Is it not correct that in early 1973 or late 1972, your projections were that strip mining costs to you would exceed the cost of the production of coal in mines 2 and 5?

A The timing of this analysis again was?

Q The fall of 1972?

A The improvement that we intend to make in strip mining of course evolves on No. 9. We are not producing coal substantially at lower costs or would not be if No. 2 mine was producing at its rated output on the basis of the current operation, this is because of the equipment that has been, that is used at No. 8 mine, it is not a low cost strip operation. We do intend though to achieve appreciably better costs from No, 9, that was the intention of my previous answer, it would be that mine that would give us the lower strip costs.

Q And the way that you are going to reduce the costs of production from the strip mine is by, primarily by leasing your equipment, is that correct?

A Not only that but by the proper selection of equipment so we can optimize our costs. In No. 8 we are using front end loader, in very blocky sandstone it is not efficient. The pits are, don't lend themselves to an efficient operation simply because the coal is folded, it is faulted, there are separate pods and lenses and it is completely different from the blanket form proposition that we would be looking at in No. 9 so that the one is much more normal idealized open pit operation than what we have in No. 8.

Q Mr. Fulton, I don't recall whether you had seen this, it has been discussed earlier in evidence. We understand this to be late 1972, mine production costs, showing a mine production cost for No. 9 in 1975 at $10.37 a ton against a projected 7.64 for the two underground operations?

A No. 9 mine of course in that figure would be bearing substantial capital write-off charge, we are not exactly comparing with the same types of figures.

Q I understand. That is the point I was trying to get. I understand that you are now going to lease equipment?

A That is correct, and the leasing arrangement that we have, this is with Industrial Acceptance Corporation of Toronto, is based on rentals that ride out the life of the equipment, because the life of a good deal of this equipment will exceed the presently blocked out reserves at No. 9, we are confident

A (continued) as coal prices improve and so forth that we will be able to tolerate higher ratios and therefore we will be able to utilize the full life of all this equipment.

Q How long is the blocked out reserves of No. 9 calculated to last?

A We are estimating those reserves between eight and a half and nine million tons, and the initial mining rate would be somewhere between a million five and a million eight, we won't make that rate in 1974 of course because we are getting started but we expect the second half of '74 to be at that rate.

Q Are the figures you are giving me all long tons?

A They are all long tons.

Q And so that there is something over six years ---

A --- that is correct.

Q Your equipment lease I gather varies from ten to fifteen years?

A Yes, the shovel has a life of fifteen years and the lease on that piece of equipment will be of that tenure.

Q And I take it that McIntyre is committed to rent the equipment for these lengths of time, from ten to fifteen years?

A That is right, yes, at the rentals that we would be paying.

Q So instead of buying equipment, you are spreading your costs out over ten to fifteen years?

A That is right.

Q And that reduces your higher, that helps reduce your higher costs ---

A --- yes, yes, and of course we believe now that we have a more

A (continued) efficient transportation system, it is going to be lower costs and so forth, that would not be reflected in the figures that you're looking at there. Those costs of course would have to be amortized over the tonnage, I mean the coal in No. 9 too because they are serving that facility.

Q This presumably is the saving that you hope to make by conveying the coal through the mountain?

A That is correct.

Q And in making calculations with respect to the cost their, you will have to amortize part of the cost of putting No. 11 seam through?

A That is correct.

Q And your conveyor equipment?

A Yes, yes.

Q Now, did you go to Japan early in, after you took office?

A Yes. My first visit was in the latter part of September and I think we were there for a total of about two weeks.

Q And what was the purpose in going there, Mr. Fulton?

A Well, there was a new man on the scene and it seemed necessary to meet the people in the steel mills. We were not in very good shape with the Japanese because of the shortfalls in our deliveries and - so I welcomed this opportunity to particularly meet the people in the coordinated mills of Nippon Kokan and Kobe, really get acquainted to see what the problems were as a prelude to price negotiations.

A (continued)

I might say that the invitation was extended grudgingly, we were given to understand at the round of meetings we had over there that McIntyre did not stand very high in their estimation as a contractual coal producer and that any price increase negotiations would be very difficult.

Q At that time, had you formed an opinion as to McIntyre's ability to carry out the original contract?

A Well, we were producing far less than target and on a month to month basis, we made some improvement in August of 1972, slid back in September. It was hard to assess during those months of course because we had the stockpiling problems as a result of the strikes, seamen's strike and then the dock worker's strike, but clearing all that away it didn't appear to me that we were making a great deal of progress towards achieving our particular underground targets. I might say that we were, we thought we were doing everything we could to improve them but the figures spoke for themselves and I would have to say that as the months went by, we were not moving up towards the two million target.

Q Was it your personal opinion from what you observed that you didn't have the economic or blocked out reserves to complete the fifteen year contract then?

A Well, it concerned me greatly when I saw the initial figures because in copper mining and so forth normally you would have everything blocked out before you develop a mine enough to complete the job. Coal mining, I have since learned, is some-

A (continued) what different in this respect that at a property such as Smoky River where the geologic presence of the coal is assured, then it becomes a matter of various economic factors, the price cost spread and the development of techniques for coal and various attitudes and various depths and so forth and it seemed to extend the lives of properties I suppose this could be said in the eastern coast of the U.S. where they are working deeper now than they probably thought they would have thought twenty years ago, so I think to some extent my fears were - but on my first visit to Japan I made the specific suggestion to the Japanese that we only consider a price that would go for six years, which were the costed reserves on the property at that time, 2, 5 and 8, and that either party would have the right to go no further at the end of six years if we could not arrive at a price, during which time of course we would intend to develop information on other coal blocks that would complete the contracts so that while we were not saying we wanted to necessarily get out of the fifteen year contract, we would talk in terms of price adjustment which would fit the reserves that were presently in sight and costed and we could examine such.

Q What do you mean by the term "costed reserves", Mr. Fulton?

A Well, it is coal in attitudes and so forth, it is a minimal to mining by the equipment that we had. In other words, it would be something that engineers could agree upon as to what it is likely to cost with escalation such as could be anticipated and so forth as distinct from the steeply pitching

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A (continued) seams about which we really know very little in terms of the economics of extracting and that kind of thing and these reserves specifically at that time would have included the sections of the Winder Syncline, the Reiff Terrace block and the No. 8 reserves and the most ore reserves in No. 9.

Q Now, if I talk about economically recoverable reserves, would that be a synonymous term?

A Yes, because the quality of the coal has been established, the mining techniques, and we were using recoveries in the deep mines of somewhere around 45 per cent, so this figure would have been used, and then of course the preparation plant information, recoveries, that was, we knew enough about the coal to expect certain recoveries, so it was that type of basic information that we had about this coal that we saw as lasting for the 6 year period, so that was more or less the basis for this proposal, how we split the blanket at the end of 6 years, if we cannot agree on a price of the coal beyond that time.

Q So that in the fall of 1972 you thought that there were economic reserves for 6 years at the 2 million ton requirement?

A That's correct.

Q Presumably originally someone had assumed that there were 30 million tons recoverable economically?

A Well, I think that's a fair assumption, Mr. Stevenson. We've all seen the D.D. Brown Report, and that starts with 2 billion tons, and then the various types of coal are categorized and then the reserves in the mines. Now this of course rests very heavily on Dr. Landes' report, and based on my understanding of definitions I would say that most of those tonnages are in the geological category versus what we're talking about here in the proven or costed category.

Q Were you able to determine or did you attempt to determine how this 30 million ton commitment had been made or what in effect

Q (Continued) had gone wrong in respect to it?

A I think I'd have to say that, reading the reports and so forth, that great reliance was placed on the reserves that were stated for 2, 5 and so forth, which, as I say, I would categorize as geologic or semi-proven. For example, in the No. 2 mine there was one drill hole put down in that entire block. You have extensive outcrop, and so -- I'm not suggesting, by any means, that's the extent of the information that was had when that was opened up, but there was a great deal of inference and extrapolation of seams and so forth in the original thinking and in selection of these areas for initial mining. It was fairly certain the coal was flat, so that the mining methods and so forth that were selected certainly would have been amenable, but there was just a lot of the details sort of information that we're used to, when we talk about proven reserves of any type, that was not completed at that time.

Q You've learned that in the coal mining operations you have to get in and do some amount of work before you can assess the economic recoverability.

A Well, I don't consider myself an expert in testing coal properties. Some of the hole spacings in the eastern United States, in the order of a quarter of a mile, which are accepted by very competent people, kind of leave me agasp, so I really am not going to criticize, but I will say that in these highly folded, contorted areas we have done drilling on much closer centers than that - this refers to the No. 9 area and the drilling that I mentioned in No.8 - to define not only the presence of the coal but its position, so that accurate

A (Continued) strip ratios can be calculated.

Q Did you hear the testimony, and I'm not trying to phrase it precisely, that Mr. Godin gave with respect to the initial contract negotiation and the initial commitment?

A I think I did. I was in attendance yesterday.

Q I was thinking of his comment made, I think it was to Professor Patching.

A Oh, I heard that, yes sir.

Q That they moved too quickly.

A Yes.

Q And from your benefit of hindsight would you agree with that?

A I would.

Q All right. Now, at the time of the fall of 1972 you were then looking at production to come for 6 years from Numbers 5, 2, 8, and had you by this time introduced a low strip ratio on 9?

A Yes, we had - in our own planning, and we also had been in touch with the Japanese and told them that at the mining plan that we intended to present in December, that that would be incorporated in the plan.

Q And what did you intend to remove from No. 9, what kind of strip ratios?

A 5.6 to 1 was the original calculation.

Q 5.6 to 1. And did you have an estimate of cost for that coal, production cost?

A Yes.

Q What was it?

A Well, we had a great many studies made, on the basis of the

A (Continued) equipment that we intended to install - this was large shovels, large trucks and so forth - and we estimated that on that basis, with proper haulage costs and if we could achieve productivities in these units, we should be somewhere down to six dollar per raw ton range.

THE REPORTER: Per?

Q MR. STEVENSON: $6 per raw ton range - long ton.

A Long ton, right.

Q And to that would be added your haulage?

A No, the haulage would be included in that. That would be delivered to the preparation plant.

Q All haulage are included.

A Yes.

Q Depreciation of equipment if you bought your own would be additional?

A That would be additional, right.

Q And the capital cost of No. 11 conveyor route would be additional?

A Yes. That concept actually was not incorporated in the mining plan that we presented to the Japanese at that time. We were contemplating haulage entirely above ground from the mine site to the preparation plant.

Q And the capital cost on the road?

A Well, we put that out for bids. We didn't know exactly what it would be but we had a pretty good idea and we subsequently put that job up for, for open bidding.

Q But would the depreciation on that or the capital cost of that be in addition to the five or six dollars?

A Oh yes, yes.

Q And of course your preparation plant costs.

Now, I've mentioned this figure of $10.34, which was in earlier projections. That was reduced to five or six dollars by the leasing and the different type of equipment?

A Yes. That $10 was one of a group of studies, and I don't remember just what the capital number against that was, but we had various spreads of equipment, and I just can't say how much of that is operational and how much is capital. I think there were about three different studies, combinations, and also varying tonnage rates.

Q And to get it down to your operating costs you could reduce the cleaning cost, take the cleaning cost off?

A Well, the costs that we are talking about now of course are, do not include anything beyond the mine. Isn't that --

Q That's right.

A Yes.

Q That's right. Now, you went back to the Japanese in December, is that right?

A Yes - very latter part of November as a matter of fact, and stayed there pretty near till Christmas.

Q And you went with a particular plan?

A Indeed we did. We had our engineers in attendance and had three technical, no, two technical sessions, with the people from practically all of the steel mills to whom we sold coal. This was the mining plan which contemplated production from the three mines, in roughly equal amounts, 2, 5 and 8.

Q One third from No. 2 mine, one third from No. 5 and one third from No. 8?

A Right.

Q Supplemented later by No. 9?

A That's correct.

Q For a 6 year period?

A Six year period.

Q Two million tons?

A Two million tons.

Q And what was your proposal at that time?

A We, after getting a reading on the September visit, put together some cost figures, which indicated a significant improvement over what we were currently doing. The figure that we came up with - this isn't correct to the penny but it was about $20.40, which we said would be our all up cost, including a conservative write-off of the mine development, the amortization, the other indirect burden on the cost, and we asked, on the basis of that cost, for a 10 per cent profit, and we structured the price accordingly, which, as I mentioned, we would suggest for the five or six year period. Accompanying this, of course, were our technical presentations, so that they could satisfy themselves of the feasibility of the plan, and I also might say that there was a great deal of investigation made of the costs that we presented, great attention was paid to the write-offs. We explained at the outset that we did not intend to recover our losses in our pricing and that we had pared the write-offs down just as low as we thought it could justifiably be done as an adder on to the

A (Continued) operating costs in developing this figure.

Q The cost figure then included, of course, your operating and production costs --

A Right.

Q -- and your site administration cost, plus the write-off of your capital costs?

A Plant, mines, access, so forth.

Q But no allowance for previous losses?

A We did not include previous losses.

Q And did you include all of the capital investment, Mr. Fulton?

A No, we did not. There were some of it that we felt we could not justify, and my recollection is that we took the total capital expenditure as something in the order between 56 and 58 million dollars, is what we were endeavoring to recover, over this period, in other words that the charges against the coal in reaching this twenty dollar plus cost was based on that portion of our capital expenditures at that time; as I think is known, including losses, we were in, pretty near 80 million dollars.

Q The $56 million that you would write-off would be, over what period of time would you write it off?

A That would be over, of course, the 15 year period of contract.

Q Even though you were negotiating for a 6 year block?

A That's right.

THE REPORTER: Negotiating for a 6 year?

A A 6 year term.

Q MR. STEVENSON: Six year term. I wonder, Mr. Fulton,

Q (Continued) if we could go back for a moment to your present plans for the No. 9 mine, since we got into your projections with respect to it: you, I take it, have received authority from the Government, various Government parties, to mine the No. 9 mine for a certain production?

A We did and, according to a set plan which has been presented and approved, this mining permit was received in July.

Q And that is for what quantity and over what period of time? Or how did you plan it - for what period of time and what quantities?

A The permit - and I could be mistaken on this, because we were considering the big plan too - the permit specifically covers the limited reserve, at the rate of 1.8 million raw tons per year.

Q For how many years?

A Well, it would be for the existing reserve. I may stand corrected on that, because there were discussions of the larger plan too, but I know we had specific approval for that. The permit is well qualified with a good many conditions, studies, and so forth, that are part of the grant.

Q Is your existing authority for something in the order of 9 million raw tons?

A I would say so.

Q And you plan to develop that at what rate?

A Well, our projections for 1974 contemplate a minimal rate, once we get up to full scale, of 125,000 tons a month, which would be a million and a half a year, and we would expect to

A (Continued) get up to a million eight, depending again on sales and things like that, but our present projection is within the 1.5 to 1.8 million ton range per year.

Q Again we're talking of all long tons?

A They're all long tons.

Q And you have committed yourself for equipment for a longer period than those reserves would last?

A That's correct.

Q And you then plan to go into deeper ratios?

A Yes, that would be the --

Q That will depend to some extent on the prices that you can obtain then?

A And the costs that are achieved.

Q What kind of recovery are you getting through the preparation plant on strip coal and what kind do you project for No. 9?

A Our overall recovery, and our present production is about two thirds stripped coal, 68 per cent this year. The test results at No. 9 indicate that that could be as high as 70 per cent. I don't think we'll really know though until we get bulk runs and establish that, and of course there's always variations in the coal - the degree of oxidation is important in the recoveries, and I think that's the best figure we could give just now.

Q Now, what do you envisage as the proportion between strip mining and underground mining over the next 6 years, or what did you envisage as the proportions when you went back to Japan in December 1972?

A Well, the answer to those two questions are different, of course

A (Continued) When we went to Japan in December we were talking about one third, one third, one third, which would have been two thirds underground.

Q Yes.

A As a result of our production realignment program the ratios are the same except with the type of coals reversed, in other words it's two thirds strip, one third underground.

Q And is it your present intention to keep the ratio in that order or do you expect that it will be kept in that order?

A Yes, I don't think that it will vary very much. The tonnages from No. 9 I think will probably vary more than from the underground, but I would seriously doubt if the underground production will ever fall below 30 per cent of the total.

Q Below 30 per cent.

A Below 30 per cent of the total.

Q Is there a significant cost saving in the strip operation?

A Well, we expect that there will be with No. 9 at the present time. Again, No. 2 mine is below its target production, because we have been largely on development, and now that we're commencing pillaring on a larger scale we expect those costs to go down, and I don't think that there's going to be a great difference in the two costs that we hope will result when we get No. 9, if we can make our projections in there.

Q Do you have the feeling that the open pit or stripping type of operation is particularly advantageous from the point of view of control of production?

A Yes, decidedly so. There is the flexibility in open pit operation that one simply does not have on underground. It's

A (Continued) basic to the mining plans, and particularly with this large equipment and the big faces that we'll have in No. 9 we will be able to float up and down with coal requirements to a greater degree, I'm satisfied, than we ever have been able to in the past, so I think that's a correct statement.

Q And labour is not as significant a component in your strip mining operation as it is in your underground operation?

A On a cost basis that's correct.

Q Well, Mr. Fulton, I believe that you anticipate that if prices improve there will be very substantial reserves in the No. 9 area?

A I don't think there's any question about it.

Q There is a great deal of coal there, of course?

A Yes.

Q There's no question about the geological reserves?

A I think that is well documented. There is a great many holes in the No. 9 mine, some of which were drilled in '72, but prior to that there were two separate drilling campaigns over there, evaluating this property for the separate contract, and while I'm sure that the coal isn't accurately positioned all through it I don't think there's any question about the presence of the seams and the overall tonnage of the coal that's there.

Q If you go to two thirds, 70 per cent, stripping, against 30 per cent underground, will you still continue to employ the same number of underground miners?

A Yes. I think we might even be able to increase it, simply

A (Continued) because we hope to increase our overall tonnage.

Q That is go up within 2 million tons?

A That's right.

Q What about the stripping operations and the kind of employees that they attract - do they provide permanent residence to the Town to the same extent that the underground mining does?

A I think so, just like working in the daylight, I guess that is the only difference between them.

Q Is it easier to get people to work on the strip?

A Yes, particularly in this country, because there is so much construction work and the type of work that is associated with open pit mining in Alberta and the Western United States and so forth as compared to underground mining, which is really a very skilled profession. These people are trained. You just, if you're not in a coal mining area you don't find qualified underground coal miners.

Q Do you know what kind of experience with turnover Mannix has had in its employees?

A Well, it has varied, one of the main difficulties has been with truck drivers. I think their mining force has been somewhat more stable -- it is very seasonal too, I might add, they have a very seasonal aspect to their -- but over-all they have been able to hold a fairly steady force and --

Q Do they keep some of their employees in camps?

A Oh, yes. Of course, our housing is available to them, trailer court.

Q And do you anticipate taking steps to encourage people that work in strip operationsto become permanent residents and buy houses?

A Indeed we do.

Q In view of the cost and control factors, Mr. Fulton, why carry on any underground mining at all?

A Well, I think it is essential. I think, in the first place,

A (continued) a responsible operator here has to recognize the ratio of deep coal and strip coal on its property. This has become pretty much of a unique coal property, I think, because of the high quality and excellent coking characteristics of this particular coal, so it can have a long life if the coal is extracted in proper ratios. The Government of Alberta is aware of this, as they of course should be, and we feel that from that standpoint alone there has to be a balanced production and a constant development of new deep mines. Another extremely important factor in this respect is maintenance of the coking properties. We are trying to get in a pretty speedy market here with the Pocahontas coals of the Eastern United States, and those have always been the hallmark of quality in low volatile coals, excellent coke button indexes and so forth. And I think it is generally known that these coals lose those properties through exposure to air, oxidation and so forth, and sometimes this can go quite a ways into the ground, so that a strip coal is generally suspect as having lower F.S.I.'s than deep coal, and we consider the balance here extremely important to keep the quality of this coal right where we want it so we can penetrate these markets and make these sales.

Q At the moment is there any government requirement stipulating what your underground production must be?

A No, sir.

Q Or the ratio?

A No, sir.

Q And your judgment is that 70-30, 75-25, and not less than that is about the right --

A Well, I think we are talking about a fairly short period of time in the life of Smoky River. I can seewhere 20 years from now the ratio might be 50-50 or something less; I think we are talking about specific properties, and during this period of time that the coal is in sight I would like to say that I think we are hopeful about indeavours that we are presently making to find techniques to mine steeply pitching coal, which represents roughly half of the inplace reserves on this property. And if we could get breakthroughs on techniques and this coal could be costed comparably with flat coal, then new horizons open up for the development of additional deep mines. I am referring now to the hydraulic effort that we are making at No. 3, and to the longwall work that is going on in No. 1 under lease to the Kenalla Company. These are projects that we have hopes for, and I think could well bring new blocks of coal not presently in our thinking into focus.

Q Well, within the area of reserves that you think are economically workable, you think this proportion of 70-30, 75-25, 2/3 - 1/3, is about right?

A Yes, I would say 2/3 - 1/3 is about what we are looking for.

Q And, I take it, that there are no conservation restrictions legally imposed on your leases at the moment, insofar as removal is concerned, I am not talking about environmental?

A No, as far as that goes, that is true, that is a correct statement.

Q Now, Mr. Fulton, you're now operating in the No. 2 mind in the 4 seam?

A 4 seam and 11 seam, right.

Q We will come back to these figures afterwards. You went back to Japan in December of 1972 as you have told us, and you had these negotiations that you have indicated; what was the upshot of those negotiations?

A Well, we got a grudging consent from Mr. Nemoto, the General Manager of Raw Materials for Nippon Cokan, they are the leading coordinator for the Canadian coals, that if we could get our cost figure down below $20, that he would see what he could do to get us a 6 per cent profit on top of that figure. And he kind of put a flag up at anything over $21 a ton. He made no promises. We did not get a particularly good reception from our chief buyer, Nippon Steel, and it was pretty clear that if we did not achieve significant cost improvement that at least some of the buyers were about through with Smoky River; they reached the conclusion that maybe this was one that there was not any point in throwing good money after bad, in terms of the higher price. And this was all made very plain to us by the coordinating people. So I left there with the impression that cost improvement was just about essential when we returned prior to the expiration of the fiscal year, April 1st, for negotiations.

Q Did you plan on going back for new negotiations before the expiry of the fiscal year?

A You don't plan, you are told; we were told that we might be

A (continued) be invited back before that time, yes, and as it turned out we did return shortly before the 1st of April.

Q I see. You came back to Canada around Christmastime of '72?

A Yes, right, '72.

Q And what decisions did you have to make at that point?

A Well, of course, we had an opportunity to examine November costs which were bad, and December costs were even worse. And we had, based on the reading I got from the Japanese, had concluded that if we did not do something that would indicate to the Japanese that this thing was in hand and going to improve, that we might not have any negotiations at all. And so shortly after the beginning of the year, with two or three members of the staff in Toronto, we formulated a production realignment plan which contemplated expanding the production from No. 8, putting No. 2 mine on the 7-day week, and closing down No. 5, simply because it was the furthest below target, most unpredictable, and the one -- the one place that we saw where, for the cost, simply was not commencerate with the coal that we were getting. This plan was studied in detail over a period of approximately three weeks. I met informally with several of the Directors, who were also members of our Executive Committee, on the 19th of January, and we spent the day going over the entire plan, the cost figures, projections. All of the Directors had been previously briefed by memorandum from me on the results of discussions in Japan, and so that when we had our regularly quarterly meeting on the 28th of January, the recommendation of management was

A (continued) presented to the full Board for action on this plan. The meeting lasted quite a while, and I think we had a thorough review and discussion of it, and the Board of Directors unanimously approved this course of action.

Q Mr. Fulton, you went to Japan with the 6-year one-third, one-third, one-third proposition in mind?

A Right.

Q And did you put that before the Japanese?

A Oh, yes.

Q And did you put the costs before the Japanese?

A Well, as I explained, we put projected lower costs, that was the $20.40 that I mentioned.

Q All right.

A And we left with the understanding that if that could be improved further that Mr. Nemoto would see what he could do to get us a price increase that would contemplate a 6 per cent profit on top of that figure for negotiations prior to April 1st.

Q Now, at that point had there been any discussion of reducing the term of the contract?

A Of course the 6-year concept was moving in that direction, and the idea of shortening the contract was discussed briefly in the context of the presentation that I made to the Board of Directors in the January meeting. The idea crystallized, you might say, as a result of rather two significant developments; the first of these was the action of the New Labour Government in Australia in December to revalue their money to the extent

A (continued) of 13 per cent, which immediately boosted Australian coal prices by, I think, over two bucks a ton, generally, but it would be between a dollar and a half and two dollars. We had been told by all of the steel mills over there of the very fine low cost Austrailian coals in comparison to all of these high cost undependable Canadian coals, and the Australians were held up to us as the shining example of what we should be. So this development we felt strengthened our hand. And then early in February we received a communication from the United States Steel Corporation that they wanted to purchase 250,000 short tons of coal from us for coking at their coke ovens in Duluth, Minnesota. These two developments, as I say, I think kind of suggested to us that a turn around in the market was at hand, and that this could be an opportunity to change the whole structure of our arrangement with the Japanese. We did not look on the 15-year contract as any great measure of security. This came about as a result of a better understanding of what the Japanese's problems are in increasing coal prices. They have this very elaborate worldwide structure of buying great quantities of iron ore and coal and so forth from all kinds of people, and always on a long-term basis. And to increase anybody's price to whatever magnitude that we were asking for, which was in the range of about $4 a ton, would, I think, have been impossible. There just wouldn't have been any way that the Japanese would have swallowed that. But by moving into the open market, and by demonstrating that despite our location

A (continued) disadvantages that this coal was of a quantity that would sell to discriminate buyers like United States Steel Corporation, we felt could be a very important point for us in trying to get this price up, and it also emboldened us to think in terms of a shorter-term contract with the Japanese. So that prior to returning to Japan in March we had formulated a 2-year contract which contemplated a price at a reduced tonnage of a million and a quarter, up or down 10 per cent at the option of the buyer, for year one, and then we would reduce the tonnage to a million tons for the second year at a higher price, based on escalation of wages and the rest of it, with the understanding and pitch to the Japanese that we think we can sell this coal to other markets, and we want to reserve substantial tonnages for that purpose. I should add that after receiving this request from US Steel we immediately went to the Japanese for permission to release this tonnage, which surprised them, but they finally granted it, so we felt that we were strengthening our position and indicating to the Japanese that we may not very much longer be in a one-market position.

Q All right. The thinking that you should move to a 2-year arrangement or perhaps only a 1-year arrangement, had that crystallized, as you put it, at the time the decision was made to close No. 5?

A As I say, we had mentioned it at the Board meeting, the desirability of getting out from under this contract, and the 6-year program, of course, while it was based, really, on the

A (continued) limited proven reserves that we could see, and it also had a similar connotation, but it was these two developments that I mentioned, the Australian thing prior, and the US Steel's request later that -- so this new approach then was discussed individually with a number of the Directors, and we put that proposal together when we returned to Japan.

Q Now, to go back; when was the first time that you mentioned to anybody else in the company the thought that you would reduce costs by the closure of No. 5 and the realignment?

A Well, as I say, the three members, the Vice-President of Operations, Mr. Anderson, the Treasurer, Mr. Goodeve, the Secretary, Mr. McKinney, all had very key roles to play in assessing this, and they were all advised of the plan more or less after I had come up with some rough tonnages and numbers and so forth on which we could all go to work. Mr. McKinneywas asked to, among other things, to carefully check the statues; Mr. Goodeve had a great deal of work to do on the financial side, and Mr. Anderson dealt with the personnel matters. We looked, a very hard look at the staff at the same time, because we felt that we were certainly overstaffed for the general reduction and scope of operations and so forth. So there was a great deal of study and preparatory work to even seriously present a program of this magnitude.

Q When did you come up with your figures that led to your discussions with the others?

A I think it was the first week in January.

Q And do you know the date that it was discussed with the others?

A I don't have a calendar, but I think it was about the first Monday after New Years, if I remember right.

Q Did you know that at this time that Mr. Richardson was meeting with members of the provincial government to advise them of the need for opening No. 9 on the basis that there would be one-third from No. 2, one-third from No. 5 and one-third from the strip?

A Well, of course, I was aware of what he was doing. This program I felt was so important to the company that it simply had to be thoroughly discussed and cleared with the Directors before any implementation of it could take effect, so that the management at Grande Cache was not apprised of the work we were doing in Toronto.

Q And you didn't discuss it with Mr. Richardson?

A Not at that time, no.

Q Now you have told us that you looked at the costs and by the time you got back from Japan, you had then what, November and December figures, is that right?

A Yes, correct.

Q And you looked at the high cost of number, relatively high costs of No. 5, yes?

A Yes, both the, costs in both mines went up very considerably.

Q Did you get in touch with Mr. Richardson or anybody at the mines to see if there was an explanation for these high costs?

A Almost every day.

Q Was there an explanation for those high costs?

A Well, we were doing a great deal of dead work in both mines, a great deal of timbering as a result of an agreement you might say that we had with the Provincial mine inspector resulting from the disturbance in October. This was very harder on No. 5 than on No. 2, but I think generally the situation had deteriorated, the maintenance on the equipment, the whole thing was, we just didn't seem to be making any progress. The production was falling off for these various reasons and of course the cost was pretty much - so the unit costs were going up very rapidly.

Q You could look at your costs in effect from either the production or the actual dollar costs that were going in?

A That is correct.

Q Did you make any effort to find out what the specific reasons in the fall of production in No. 5 were?

A Oh, I think that was lower productivity because the crews

A (continued) were spending so much time on brushing timber.

Q Was that a realistic cost figure or production figure to use in assessing whether or not the mine should carry on?

A It was a fact of life, I mean there it was. Well, we just didn't have the history of encouragement you might say. These things seemed to be befalling us and we were not making progress, we were not improving. We, I think as I explained previously, had recognized at the outset that there seemed to be distinct problems in No. 5 that were not as serious in No. 2, roof conditions were different, we were deeper in No. 5, in both areas of course we were well below fifteen hundred feet of cover and the heaving conditions, the general problems of keeping up daily production and so forth, complicated by the additional timbering and other work that had resulted from the October incident simply were all making their contribution to a very, very serious loss situation.

Q Were you satisfied there was no chance for improvement in No. 5?

A Oh, I think there is always chance for improvement. The problem at this time I think was one of timing. We were focusing on April 1 and we, as I have explained, I was satisfied that if we did not have some pretty concrete show of improvement to take back to Japan, that we probably were sunk because we were not going to get a price increase if they didn't have confidence in what we were doing, so I really, in my recommendations to the Board, felt that we simply had to

A (continued) take action in anticipation of these negotiations or we were in a position where we couldn't continue at all.

Q You didn't have the time to consider the other alternatives in that sense?

A That is right.

MR. STEVENSON: Would this be a convenient time to adjourn?

MR. CRUMP: Yes, it is eleven o'clock, we will recess for fifteen minutes.

(The Hearing adjourned at 11:00 A.M.)

(The Hearing resumed at 11:20 A.M.)

MR. CRUMP: Would you return to the stand, Mr. Fulton?

MR. FULTON returns to the stand and is further examined by Mr. Stevenson:

Q Mr. Fulton, when did you discuss the proposal to close No. 5 mine with any of the directors?

A I discussed it by telephone I think during, on one or two occasions, during the period, during the time we had formulated, I would just have to guess, somewhere around the 10th of January and we had the meeting with several directors that I referred to previously on the 19th in Toronto.

Q And which directors were involved?

A Mr. Howard Keck, Mr. Arthur Feldmeyer, Mr. Marsh Cooper, they are all members of the Executive Committee.

Q Was that the whole Executive Committee?

A No.

Q Now the members of the Executive Committee were in agreement with you?

A Yes.

Q And was this plan, in your mind, predicated upon being able to operate No. 2 for seven days a week?

A Oh yes, because the additional tonnage of coal that would have come from 2 was very much a part of the making up for the shortfall for the loss of production of No. 5.

Q Did you realize that you couldn't compel the union to operate?

A We certainly did.

Q But you went ahead with your projections on the basis that you would get a seven day work week?

A Yes.

Q Now, was there any cost analysis at that time which enabled you to say No. 5's costs are showing an uneconomic rate of return at this point?

A I think you could have said that about both mines, both 2 and 5.

Q At that time?

A Correct.

Q That economically you could justify closing both of them?

A Neither mine was making money at the $1.73 price.

Q But it wasn't as if there was some point of no return that you had reached in No. 5, some definite figure you had in mind?

A Do you mean costs had been exceeded which precipitated the decision?

Q Yes.

A No.

Q I am saying ---

A --- costs just constantly rising and falling productivities.

Q I am saying, Mr. Fulton, is there some cost figure or some production figure that you can say, we must close No. 2 mine at?

A No. The reason, as I explained before, that we selected No. 5 was because that was the persistently deficient producer.

Q The worse of them?

A Right, and a very important part of the plan was to take both people and equipment from No. 5 to strengthen No. 2 because it was our assessment that of the underground mines, No. 2 had the best change of substantial cost improvement, so that these were, to some extent, this selection to a large extent was dictated in the operational realm as well as the strict cost realm. In other words, we felt we had to select production centres, production units that had the best chance of getting our costs in line to the point where we could have meaningful negotiations with the Japanese for a price increase.

Q Did you consider that you could pick up some significant production by pillaring out No. 5?

A Well, that was mentioned. Of course there is always an enormous number of postmortems on anything of this magnitude. We felt though that when the plan had been, in effect the decision had been made by the Board that the plan as it was set up must be implemented or we weren't discharging our function. So that these things had all been considered, and the plan that was put together was the one that we felt we simply had to implement, again bearing in mind that we felt we were in a very very strict time frame here and that certain things had to be accomplished within a fairly short period of time.

Q Did you feel you didn't have time to pillar back No. 5?

A Well, I don't think it's altogether that. If we pillared back No. 5 we'd have continuous miners that couldn't be used in No. 2. So I have to say again that we had a plan, taking into account all of the factors that we felt were important, and, most important, and we moved ahead on that plan. You can't start something and then do many other things simultaneously and accomplish what you set out to do, so it was really just carrying forth the objectives of the plan that, I may say, had been very carefully laid out.

Q But you were going to concentrate on reducing those costs?

A That's right.

Q Now, this year has the productivity of No. 2 been up to its productivity last year?

A No. No, I think we'll be achieving the productivities for the

A (Continued) reasons that Mr. Johnson explained yesterday, very soon. We can put the miners on pillaring. But there was a great deal of straightening out to do in there, all of which he explained, and the miners have been on development largely, particularly in 6 North and 5 North, in very difficult conditions - they're passing into the Syncline, lots of gas, and so forth, and the productivities have been low, but now that we've reached the limits of the block of coal to be mined and can start retreating and pillaring in a proper fashion, we do expect the productivities to come up where they should be.

Q Where should they be, what are we talking about?

A Well, we're shooting for somewhere between 3,000 and 3500 tons from the units that we'll have producing in No. 4 seam and then we'll have a supplemental production from No. 11 seam, which we expect to exceed 4,000 raw tons per day.

Q Now Mr. Fulton, your predictions with respect to improving productivity in No. 2 now, are to some extent predicated upon the easier conditions and the higher productivity that are encountered in pillaring out?

A Well, pillaring is something like stoping. I mean, you have the coal all developed and you, the miners are working on solid blocks of coal, that should optimize the productivity, as distinct from development drives and so forth, where faces have to be cut and only a limited tonnage of coal can be produced. Really what it's all about, you might say, you develop first so you can pillar.

Q But wasn't that the state of No. 5 in January of 1973?

A No, I wouldn't say so.

Q Had you stopped development?

A Well, the drives had been going ahead. They have not reached their ultimate limit, of course.

Q Are you saying you couldn't have pillared back?

A Oh, I didn't say it was physically impossible to pillar back, oh no. I tried to explain why a decision was made not to pillar back, but I didn't say that it was physically impossible to.

Q Was it considered?

A Well, we didn't feel that we could continue to operate both the underground mines. I think that would be my answer to that. We had no choice.

Q You didn't have the time?

A The results that we obtained from the underground operations suggested to us that we could not continue to operate both mines and make the satisfactory cost reductions that would enable us to complete satisfactorily the negotiations with the Japanese.

Q Well, had you done any time studies in No. 5 mine that would indicate why the productivity was low?

A Well, I endeavored to explain. We had a great many people that were not producing coal - they were timbering, they were brushing, they were doing unproductive work.

Q And would you have improved this problem or eliminated it or reduced it if you had turned and pillared out what was left?

A Well, I think we could have pillared. A great deal of pillaring, of course, had been done initially, which is one of

A (Continued) the problems at the mine. In other words, it had not been completely developed before pillaring commenced. That was the case in both mines and notably in No. 5 mine.

Q But when you were making this decision to close No. 5 did you consider what coal you were going to leave by doing that, or was it just a question of cutting the cost?

A It was a question of cutting the cost. I don't think in a situation like this you ever irrevocably leave coal. I mean, there's a lot of coal left over there and, but as the situation was at the moment we felt this was the course of action we must take to --

Q You're not counting on going in, back into No. 5?

A No plans whatsoever.

Q All right. I started to ask you a little while ago about the reserves, and you think you have economically recoverable reserves in No. 9, at least in the order of your present plan.

A Yes.

Q Now, No. 2 mine, No. 4 seam, is now at the end of its development face?

A For this block. Of course we have the block between the pillar which we will leave in Sheep Creek, --

Q But that's going to be developed from the other side?

A There are entries from the Sheep Creek side, right.

Q We don't know how to designate that mine. 2A or something?

A Well yes, it's part of the original No. 2 mine, No. 4 seam.

Q All right. And in the No. 2 mine, No. 4 seam, that is now being operated, what recoverable reserves do you estimate there,

Q (Continued) or do you want me to get these figures from Mr. McKelvie?

A I think that would be better, because he's been evaluating them and he'd have more up to date figures.

Q What areas are you looking at as being economically recoverable today, what underground areas?

A The pillars in No. 2 mine as developed, the section we've just been mentioning, talking about, and Reiff Terrace.

Q And the other side of No. 2?

A Yes. As I say, the other, I meant the area we just referred to.

Q What about deep mining in No. 9, has that been seriously considered?

A Yes. There again though this is going to depend largely upon economics, because we are set for open pit mining over there, and as we can establish stripping costs and the other factors that will go into producing coal from that side, then we will have to examine what stripping ratios can be tolerated, but at some point I'm sure that the maximum would be reached and then both augering and underground mining potentials would present themselves.

Q And Campbell Flats or No. 7 or 8?

A Well, we've done some drilling up there. There's a limited potential. I'd again like to refer you to Mr. McKelvie on the precise reserve we're carrying. We had initiated that program last year with the hope of finding additional strip tonnage, but the cover is quite thick and it's an underground, a deep proposition.

Q Is the No. 11 seam in No. 2, which you're now working on?

A Is it in No. 2 --

Q I see. It's in the No. 2 area, the No. 11 seam?

A Yes.

Q That's under development now?

A Oh yes, indeed.

Q And there is also the possibility of going back into No. 10 seam in the No. 2 area?

A Oh yes, indeed. There's a very large reserve there.

Q And is there any reason to question the abandonment of that No. 10, the temporary abandonment of that?

A None whatsoever.

Q It was abandoned on the high cost?

A That's right.

Q And you are anticipating that the market price will justify going back in?

A Yes, and I may say I think the choice of entries was unfortunate. There's a gulch right alongside the entry and it quite apparently marks the fault and there's a great deal of water in the area in which we're working. I think Mr. Johnson has selected another portal site and I think in time, when we tackle No. 10 again, with new entries and so forth, the conditions will be different. So we have by no means abandoned efforts to mine that seam.

Q And is that a fair, comparatively flat seam?

A Yes. It's conformable, of course, with No. 4. It lies very much in the same attitude as 4 seam, which is about 240 feet

A (Continued) below it, above it - no, 4 is below 10.

Q At this point is there any reason to expect that the conditions in the Sheep Creek side of the No. 4 seam, No. 2 mine, will be significantly different from what you're recovering now in the No. 2 mine?

A No. There's an excellent exposure of the seam actually in the creek, and the, the thickness, and we can examine the conditions of the roof rock, and there is no reason whatsoever to believe the two conditions will be different.

Q Either better or worse?

A No difference that I think we could hope for.

Q The Reiff Terrace area, is that also comparatively flat?

A Yes, it is.

Q What seam is it?

A No. 4.

Q And do you anticipate the conditions will be similar to the No. 4 seam in No. 2 mine?

A Yes, we do.

Q The Campbell Flats one, what seam is that?

A It's 4.

Q And you expect the conditions to be the same there?

A Yes. I think the, our information would be based entirely on drill logs, but I think the section was very similar.

Q Now, in the possible comparatively low pitch areas there's also the No. 14 or Grande Mountain area?

A Indeed.

Q And what seams are present there?

A No. 4 seam, a grouping of 6, 7 and 8 seams, which aggregate

A (Continued) something around 13 feet, and No. 10 seam is well exposed there. No. 11 seam apparently is missing over much of Grande Mountain.

Q And would you expect the conditions in the No. 4 seam there to be similar except for thickness to the No. 4 seam --

A Oh, I would say so. There's thousands of feet of exposure in No. 4 seam, and I would say that with confidence.

Q And do you anticipate that the No. 10 seam will be similar to what you've already encountered?

A Yes. Yes, we do.

Q And the No. 14 area has a problem of accessibility, is that correct?

A Well, it's distance, of course, from the existing preparation plant, the flat coal is on the other side of the mountain from Smoky River, it's intentionally folded on the Smoky River side, very steep, and then the attitude of the coal turns flat and, as near as can be determined, passes through the mountain on a relatively - well, there is a very substantial tonnage of coal up there that would be amenable to room and pillaring, but I think yes, your statement would sum it up, that right now with the preparation plant where it is it's an access problem.

Q There's not sufficient reserves to justify another preparation plant?

A No, no.

Q Has anything been done with a view to deciding what could be done to improve, to gain accessibility?

A Well, it isn't that high on the agenda. We have a good deal of

A (Continued) information, but, as we consider these new areas there's always additional drilling and that type of information that has to be put together first before detailed planning, so I think, if I understand your question correctly, the type of planning and thought that would need to go into this thing for development has not been done yet.

Q Your long range plan involves, your present long range plan involves the Sheep Creek side of No. 2, the No. 11, and the Reiff Terrace?

A Yes, and of course the substantial reserves that have already developed in the Smoky side of No. 2.

Q Yes. And how long would those plans carry?

A Well, those tonnages would be essentially over in a 6 year plan, 2 million tons a year.

Q 2 million from them, from the underground operation?

A No, that wouldn't carry quite that.

Q About two thirds would probably --

A Well, they would aggregate, those would aggregate close to 5 million tons, and at the two to one stripped, to No. 2, it would be very close between 5 and 6 years of coal in those areas. In the other plan, if you remember, we were going to get a third of the coal from No. 5, and now we're endeavoring to supplement that from strip, so really to call the coal from No. 2 is not too different than it was previously, with those blocks included from.

Q Now there are a number of steep pitch areas on the property.

A That's right.

Q Particularly No. 3 and No. 1?

A Well, those are just two out of a great number, yes, this is true.

Q All right. In your plans today, No. 3 and No.1 have been the ones that have been considered in any event, is that right?

A That's right.

Q And what are you doing with No. 1 mine?

A We have the property leased to Albert M. Keenan of Denver, who has previously mined steep pitch coal in the Rockies in Colorado, and his operation is predicated on the development of a substantial block of coal in No. 1 above river level and then using a modified longwall method of mining this coal. Dr. Keenan is an expert in this type of mining, based on his past experience and success at this Thompson Creek mine, and so with this property leased to him we're hopeful that some very useful information that would apply not only to that property but to other sections of the seam with similar attitudes could be utilized for development of the deep coal blocks elsewhere on the property.

Q How much of the No. 1 area does Keenan have leased?

A Well, it's the mine, No. 1 mine block, that was shown on the various maps, that extends -- His present plan is to drive on strike on the seam for 8,000 feet. That's the block of coal that he intends to develop initially for longwall.

Q Is it something in the order of 8 million tons reserves estimated?

A That's right.

Q And I gather the arrangement with Mr. Keenan is in essence an option, which says that he's not committed to go ahead?

A He's not committed, nor are we, until we kind of see the quality of the efforts, so to speak. We have agreed to purchase some of the tonnage of coal from him, at a price that's - well, to some extent you might say we're helping him along, and then if he reaches the point where he can get a solid backing for the additional capital requirements he'll have as his operation expands, then we move into a profit splitting arrangement, so that the price of the coal comes down and we have a chance to market it. We're very interested in this effort of his because, as I mentioned, we feel it has definite research value to us and that it's in experienced hands and so we are doing whatever we can to, short of direct involvement, to get this thing going.

Q He, if he decides to operate, is committed to sell to you at a certain price and you are committed to buy at a certain price?

A That's correct.

Q And that price as negotiated involves some element of subsidy, from your point of view?

A It does, oh yes.

Q And after a certain volume of production you share in the profits, is that the situation?

A Yes, that's correct, when we reach a certain scale of output.

Q And does the price stand open to renegotiation, is that the essence of it?

A Oh, we haven't formulated the splitting arrangement.

Q At the moment what is the status of the Keenan development?

A Well, he has a Dosco miner in there - this is a rock head - miner, that he's renting from us, and he's endeavoring to establish rates of advance in the seam as a basic parameter of his whole cost structure, in other words he feels he has to make so many feet per shift in the development of the entries, to make the cost that he's projected stand up, and he's endeavoring to do that. Now, he has opened up the two lower tunnels, the one on the river level is the one he's driving at the present time, and he's rehabilitated the one above that.

Q When does he have to make a go or no go decision?

A Well, he's actually run out his time now, but for the reasons that I've mentioned, as long as a serious effort is going forward there we're going to be patient, and I might say also that we're very anxious to get a large sample of that coal and determine more precisely its qualities. Right now we're relying pretty heavily on drill core information.

Q Is Dr. Keenan or his company financing this themselves?

A You'll have to ask him. I understand though that he has put quite a bit of his own money into it.

Q Is McIntyre financing it?

A No, sir.

Q Do they anticipate doing so?

A No. No, it's an arms' length lease.

Q And you're prepared to let him carry on, even though he's worked out his time?

A To a point, yes, to a point.

Q And as long as he's doing some work you're going to let him continue, under your present plan?

A Well, I don't think I'd want to answer a hypothetical question as to what we will do. He's making a serious effort, he has people there, he has a, his manager, Mr. Allen, and he has six people, and we see -- there's always problems in starting these things up, and we're watching it, but we intend to be patient and reasonable.

Q Is he trying to locate financing?

A Yes, he is.

Q And that's part of his problem as well as the operational problem?

A Indeed it is.

Q All right now, No. 3 mine, you are investigating it from the point of view of hydraulic potential?

A Yes, we are.

Q It's, I take it, not a labour intensive operation if it's successfully developed?

A I'm not an expert in hydraulic mining. We feel we have excellent consultation, and certainly on the basis of the techniques and the results obtained elsewhere and so forth, it could be a very high productivity operation, yes.

Q Is it a labour intensive operation?

A That would be another way of saying it is not, I think.

Q And is there anywhere in North America a successfully hydraulically mining 21 foot seams?

A Specifically 21 foot seams?

Q Well, in that order.

A I can't answer that. I know of an operation where it is successfully mining a much thicker seam but I can't answer that with respect to --

Q Now, Mr. Fulton, after the Board of Directors decided to close No. 5 mine at a meeting which I believe was the 25th of January of thereabouts, --

A It was a Thursday, whatever it was, in that week.

Q You then went out to the mine?

A Yes, I went out the following night, Friday night.

Q And told Mr. Richardson?

A Yes. I met with Mr. Richardson on Saturday and explained the plan that had been evolved and invited his comments of course, and we formulated a policy on matters such as the severance pay and occupancy of the housing, other things that of course always flow from something such as this, and then on Sunday we met with Mr. Murray, who was then general manager, and Mr. Bean, who was then the controller, and we spent the entire day going over the plan again, to check as to its correctness on the assumptions that we made and all the other plans and problems that --

Q Now, prior to that time had you consulted Mr. Richardson or Mr. Murray with a view to getting their opinion on the consequences of closing No. 5?

A No, we had not.

Q When you were considering the closure of No. 5 had you got either of their opinions on the economics of closing No. 5?

A No, we had not.

Q Had you considered the effect that that closure would have on the morale of the remaining miners?

A Yes, we did.

Q And on the community?

A Yes, we did.

Q Did you consider that anything could be done to alleviate the effect that that would have?

A We certainly did, and that was the topic of a good deal of our discussion between Mr. Richardson and I on Saturday, as to just how these problems would be dealt with.

Q And how did you propose dealing with them?

A As we did. We felt first we had the obligation to the province to let them know what the plan was and the reasons for it, and so he and I met with the cognizant ministers, the responsible ministers, on the following Monday, and then Mr. Richardson first addressed the staff which was very seriously affected, the union leadership, and then the Town's people on the following day.

Q When you were making these realignment plans did you have some concern as to the quality of the staff that you would keep, and I mean including underground staff?

A No, we anticipated that this thing would be handled pretty much on a seniority basis, and that's what -- but as far as the management of No. 5, we felt that went with No. 5 and those people were terminated.

Q Now, what did you tell the cabinet ministers that you met with

Q (Continued) when you advised them of your decision?

A Well, I met with Mr. Dickie and Mr. Peacock, and Mr. Richardson met with Mr. Hohol, and we described in detail the overall, as we call it, the realignment, the production realignment plan, the effect it would have on the community, hopefully on the operation, and of course we gave, I gave Mr. Dickie and Mr. Peacock extensive background on our discussions with the Japanese, which of course was a very important part of reaching this decision, and spent considerable time, both he and I, with them, explaining it, and answered a number of questions.

Q I take it it's clear that there was no consultation with any of these persons or with any person in the Government prior to the directors' decision?

A That's correct.

Q Did you meet with the Union?

A I met with the Union on the Saturday following - I don't recall the day, it would have been very early February. I came back to the mine the following Friday night, and Mr. Farmer had asked for a meeting the following morning.

Q And who was present at that meeting?

A Mr. Richardson, Mr. Murray, myself, Mr. Farmer, an International representative of the steelworkers, and, of course, several of the other officers of the Local.

Q What were the highlights of that discussion, Mr. Fulton?

A Well, we were asked what the problem was, and I explained the situation with the Japanese, gave them the background of our recent visit, the situation as we saw it - basically the cost

A (Continued) reduction was absolutely essential to gain a better price and really saving the entire operation.

The next matter I think that was dealt with concerned the, working No. 2 mine seven days, and Mr. Farmer pointed out the condition in the labour contract which had been negotiated and took effect the previous October, saying that the underground mines would not be worked more than five days a week, and that meant specifically Monday through Friday, and that they would concede, with respect to the No. 8 mine, and that they were agreeable to operating the preparation plant more than five days a week, but that their position with respect to No. 2 was that they would not work seven days.

Q Was there any suggestion made to you that they would consider working seven days if there were no layoffs?

A I don't recall that.

Q Was there any suggestion made to you that the miners be allowed to pillar back No. 5?

A Yes, that was mentioned.

Q And what was your reaction to that?

A Essentially the answer I gave previously, that we felt we simply had to carry forward, the plan was now in progress.

Q Was there any questioning of your assessment of the problem in the No. 5 mine by the Union people?

A Oh indeed there was.

Q And what was told to you, as best you can recall?

A Well, they felt that that particular mine could produce. I think things generally along that line. They felt that the mine, perhaps, should not be singled out. It was positive, I mean, we had quite a discussion about it. But, as I say, the upshot was that we just had to tell them that we felt the over-all decision had been made, and that we simply had to close the mine.

Q Now, it was clear that you had looked at the productivity for the fall months in No. 5?

A Yes, that's right.

Q And you didn't consider it likely or, let me put it this way, Mr. Fulton, did you consider again, did you look at those productivity figures and consider that it might be a temporary condition?

A Well, I think basically, as I have explained, we felt we simply had to realign the sources of coal production. We had to get more coal from open pit, until we could get this thing stabilized and straightened out. We just had too many people involved in underground mining in terms of the coal we were producing, so one of the underground production units was singled out for closing.

Q Mr. Fulton, is there some cost or productivity figure that you have determined that must apply to No. 2 mine?

A No, I don't think we could say that. I think we feel that we have got to have deep coal. And we do hope to -- we have the US targets in front of us all the time, and excellent productivity that they used to have there which are fading now,

A (continued) and so forth, and we don't see any reason why we shouldn't be able to achieve those, but I don't think we have a tons-per-man shift or a dollar figure that makes it either a sink-or-swim proposition, we feel we have got to have deep production.

Q Now, you went back to Japan at the end of March?

A Yes, it was mid-March, as I recall, I don't remember the precise date, but it was prior to April 1st.

Q They had made a date for you, at any rate?

A They had.

Q And when you went back had you then thought of shortening up the contract?

A Oh, yes, we had a very detailed proposal, as I mentioned before, with 2 years; the first year structure of a million and a quarter at a price, and the second year of a million at a higher price. And this included, of course, the cancellation of the 15-year contract, it wiped out escalation. It was pretty much of a complete substitute, you might say, in our proposal for what we currently had.

Q Were you concerned in taking that proposal forward about the effect of giving up of the 15-year contract would be on the community and on the employees?

A Well, there is -- I suppose certain comfort can be gotten from a long-term agreement, it suggests stability; but this thing, of course, was leading us nowhere but into bankruptcy, and to that extent I don't think anybody could make much of a case for security under this agreement. We didn't anticipate, of

A (continued) course, that everybody in Town would grasp this at once, and we had to anticipate, I think, many questions. I remember a couple of meetings that I had with the townspeople where we went into this at some length, to explain the philosophy and the vulnerability of the operation with one market, and the importance of diversification and all that went with it, which, of course, is a very fundamental part of the flexibility that we presently have under the new short-term arrangement. So these things are -- they evolve, and it takes some time. I considered the railroad was a little bit shocked until we had a chance to explain it to them, what the whole outlook was, and what we were prepared to do, and we certainly made believers out of them. It is just a change in concept. We are the only one of the Canadian producers who is not on a long-term contract, and this was a very serious break for the Japanese, and a very substantial departure from their way of doing business, so I think one must anticipate that there is a certain fall out, you might say, in something like this.

Q And you knew when you came forward with this plan that you had a 15-year contract with the railway?

A Oh, yes.

Q And you had a long-term contract with the Alberta Power?

A That's right.

Q And certain obligations with respect to some employees?

A That's right.

Q Over the 15 years?

A That's right.

Q And did you consult with any of those groups before you went to --

A No, we didn't feel we had to. We don't have a definite -- I mean, we have short fall provisions in our agreement with the railroad; we don't have a definite commitment to Neptune. We have some flexibility. We felt that before we got too many people involved we had better see just what could be done. But the whole purpose of doing this -- I might say, that we felt that the logic of doing this was, that by offering the Japanese a completely different type of commitment, the short-term commitment on a reduced tonnage, that they could then justify a price increase, which they could not possibly consider within the framework of the long-term contract. And we felt we had to have that much of an increase in price to make this a viable operation.

Q And would it be fair to say that you felt at this time that the 15-year contract was a loose arranged security in any event?

A I would certainly agree with that.

Q Now, I take it that the present contract is firm for this year with certain negotiable options next year?

A That's right.

Q And what are they?

A The obligation to attempt to reach agreement by the 1st of December, and no tonnages or prices specified, we just simply go over there with our proposal and start negotiating from there.

Q And if the Japanese say "We don't want any coal", unlikely as this may be, you would then have to look for other markets?

A Yes, and, of course, we are doing that all the time.

Q And you have found some potential marketing in the United States?

A That is correct.

Q And what about Eastern Canada?

A Well, so far not too much. Both Stelco and Algoma have captive mines. I might say, and I don't think this is -- Stelco has shown a considerable interest, but unfortunately, they are away over in Hamilton, and they are not the most accessible from the transportation standpoint. But we have been working hard on this, and we really think that logic will prevail, you might say, and that sooner or later we will be selling this coal to the steel mills.

Q And the sales that you have made thus far, have they been made at the Japanese rate?

A No, no, we have undertaken with the Japanese not to sell at a lower price than we are receiving from them.

Q So you calculate that F.O.B. the mine, and that is the price you have to get from someone else?.

A More than that.

Q Yes. And you're satisfied that the increase you got, the $3 or thereabouts increase that you got for the one year couldn't have been obtained for the length of the contract?

A I don't there is any question about it.

Q And it wasn't considered on that basis? It wasn't negotiated

Q (continued) none of the negotiations were on that basis of a $3 increase over the term of the contract?

A Well, when we went to Japan in December, as I previously stated, we had a price structure which was based on this cost production, and when you put the 10 per cent by our proposal on top of the $20.40, you came up with almost $22.50, which would have been almost a $4 increase over our 18.73. And "horror" is the best way to describe the reaction to that particular proposal, there wasn't any way that we could have sold that, so we tested the water to that extent, and found out that anything like a 3 or $4 price increase within the structure of the 15-year contract would have been just out of the question.

Q And yet your assumption that the coal markets are going to rise as rapidly as you feel this direction, that would have been a good deal from the point of view of the Japanese?

A You are talking about two different markets, Mr. Stevenson. The Japanese don't want to stay in the spot market, they want to get out of it. They are trying to reduce their commitments to the American suppliers, and they want the long-term arrangement, it is a very, very distinct and different market.

Q They didn't want it at 21.50?

A I beg your pardon?

Q They didn't want it at 21.50?

A Well, as I say, Mr. Nemoto indicated to me that he might be able to get something shy of $21, which would still have been a substantial increase.

Q And you were going to go into the spot coal market, in essence go into the spot coal market?

A That is what we were endeavouring to do.

Q That is what you're going to be in?

A Well, we are in it now, in a very small way, but we are trying to penetrate these markets and establish the acceptance of this coal so that we can stay, to a large extent, in the spot market. I visualize this as a kind of -- a little bit of both for a while, because the Japanese are very anxious to get us back on some kind of a extended commitment, certainly not 15 years, but they would like to see 3 to 5 years, and it could be in our interest to give that careful consideration. Certainly not in the coming year, but that is a possibility thereafter, to have kind of an anchor to the windward, you might say, with respect to a certain tonnage of coal, and then sell the coal we can to the other people as the sales develop and customer relationships are established.

Q Do you have the flexibility to cater to the spot market?

A Well, we are reserving tonnage, of course, this year, and intend to next year for that particular market.

Q Do you anticipate times where you are going to have to cut back on the production extensively?

A Well, that is why I think we don't want to lose the Japanese; the way things are going over there now, that is a big market, and with the uncertainties in Australia, and the way US coal prices are soaring, I think we are going to be able to sell them more coal perhaps than our commitment, that is our present

A (continued) situation --

Q I am sorry, pardon me?

A I was just going to say that they have offered to buy additional coal beyond the million and a quarter ton commitment for the current year.

Q And are US coal prices soaring?

A I think you could use that word, yes, sir, they are going up very fast.

Q And how much in the last year?

A Well, they are due to go up this year, between the increases that have already been imposed, I am speaking of export coal now, and what will come with the United Mineworkers wage increase in November, in excess of $2 per long ton at the Hampton Roads Price.

Q Isn't that simply a reflection of an increased cost of $2, $1 for the first point and $1 for the second?

A Well, each of these companies, of course, has their own accounts, and certain things cost -- I think youwill find though, if you compare prices, that there is a remarkable uniformity in cost increases, if I might say so, as they are reflected in the prices. In other words you are in the market, you have a quality coal, and you're pricing it at what the traffic will bear.

Q And wouldn't you say that that increase happened to reflect those two items?

A Oh, they do, unquestionably, and that is the justification for the increase that the Japanese will allow. But the option,

A (continued) you might say, or the position is with the US coal supplier, not the Japanese, they take what they are offered, in other words.

Q Have we been faced with the kind of health and safety standards that are now being put into the American mines?

A Those are very severe; I would have to think they are comparable, but I am not -- I mean, I am not positive on the detail.

Q They appear to be reflected in an actual cost?

A No question about it. I think that the thing that must be remembered down there are the difference in conditions; low volatile coal now in the Eastern States all comes from deep mines, and some of these mines are extremely gassy, to the point where gas has to even be bled off before it is safe to use the mechanical equipment. These are conditions that impose very, very severe burdons, you might say, on the productivities, and that has been reflect since 1969 when the law was passed. The productivities have declined rapidly. Much of the equipment, the mining equipment now is obsolete because it does not incorporate the devices and so forth to meet these new standards, so the US mining industry is going through a transition of re-equipping, to some extent. You would expect, I think, the plateau to be reached here where a new level of productivity will be achieved, but right now they have been sustaining some very serious declines.

Q There have been no further negotiations with respect to -- with the Japanese with respect to the forthcoming year or the

Q (continued) year after that yet?

A No, I visited Japan in August, and we talked about the timing, and it is indicated now that these negotiations will commence around mid-November.

Q You were reported in Japan as having said that there were no development plans, production plans past fiscal 1974, is that an accurate quotation?

A I hope the testimony here will refute that. I never made such a statement.

Q And are there plans for production and costs for 1974?

A Well, of course, we have production plans and we have projected costs.

Q And for 1973?

A The current year?

Q Yes.

A Oh, yes.

Q Do you have those?

A Do we have our --

Q Those two projections?

A Our production projections for '73 and '74?

Q Yes, and the costs associated therein?

A Yes.

MR. SABEY: Mr. Chairman, at this point I must rise. We recognize that the cost of production is one of the very specific terms of reference before this Commission, and we desire to put forth all of the information that the Board requests, however, I think it is obvious that the company is

MR. SABEY: (continued) now dealing with its customers on an entirely different basis than they have in the past, and the evidence is that these customers are very sophisticated dealers, and it appears that with the new situation, the disclosure of these current and projected costs to the public, and thereby to the customers, may very greatly impede or disable the company in its future negotiations with them. And for those reasons we would ask that the Commission consider allowing the company to put forth those figures on a confidential basis in camera, so they are not disclosed to the potential customers.

MR. STEVENSON: Mr. Chairman, would you take that under advisement?

MR. CRUMP: The Commission will take that under advisement, Mr. Sabey. I might say that the Commission met this summer, early summer, with Mr. Nemoto and his delegation. And when I was in active business I also knew his predecessors, Mr. Tanabe and Mr. Cho, so that we have some conception of what Mr. Fulton is saying. But we will take it under advisement.

MR. SABEY: Thank you, Mr. Chairman, I appreciate that.

Q MR. STEVENSON: It is correct, Mr. Fulton, is it, that up to this point the Japanese have been negotiating on the basis of your costs?

A Well, they have felt, I think, that this information should be made available to them. At these technical sessions there was a very complete review of costs. I think anybody that accepts the long-term concept must accept also the cost plus a profit

A (continued) concept, the two go together, because obviously that market, that pricing would be basically different from pricing in the marketplace, where you sell on the basis of quality or what the other fellow is selling for. So they had a technical mission over here in September of last year they had a full exposition of both the plans and the costs, and when they were over here a few days ago and wanted similar information we just politely told them that we would tell them where the coal is coming from but we won't tell them what our costs are, and this is acceptable under the new terms of reference we have with them.

Q This may be simplistic, but essentially what you're saying, it is the essential position if you look at a long-term contract it is going to be something in the order of cost plus?

A It has to be.

Q And if it is a short-term contract it is going to be, on the spot market situation, it is going to be the market then --

A That is exactly right.

Q -- at that time? And the market it primarily set by the American coal?

A They at the present time do set it, that is correct.

Q And there has been a fundamental change in McIntyre's policy as to the way it is negotiating the sale contracts in the future?

A Yes, I think this could take more than one turn; we are certainly going to try to hold the spot position this year

A (continued) while the market is so strong, but things do change, and we really believe that we must listen very carefully to any proposal they have for, say, an interim length of 3 to 5 years, something like that, proposition. The problems these days on a long-term contract is to formulate escalation. If you're going to have a too long-term agreement, then you don't have negotiation during that period, but the escalation that McIntyre accepted initially, which has since been improved, did not begin to cover the actual cost experience. These are the annual wage increases, the cost of materials, the other things that come along, simply because costs, I guess pretty near the world-over, have gotten out of hand. So that there is a basic difficulty these days in formulating a long-term arrangement with a formulated escalation that will work and will keep both sides contented for a long period of time. So we think there is a very excellent argument at this point to stay away from it, but it could be later on, that this is something that could be reconsidered, certainly not on a 15-year basis, but on something that would assure certain large tonnages of coal coming out of there each year to an established buyer at a price so that we don't have too many ups and downs.

Q If you get into a five or six year sort of proposition, where do we fall on our method of negotiating, market or cost plus?

A Well, I think the best you could probably do, you might agree to a 2-year period with a reopener, I think that is probably as far as you want to go. You would agree on concept, that

A (continued) you'regoing to come back to the table over a 6-year period, but you probably could not -- these are all just very informal remarks that I am making now, I am just trying to paint the picture of what generally we are thinking about to maintain the flexibility to keep the profit margin, and on the other hand to try and build in a certain modicum of security, because this is an isolated operation, there are a lots of things to consider. I think we would like to try and structure it so we have a little bit of both.

Q But at the moment you're certainly in the short-term position?

A Yes, we are.

Q Now, when do you plan on commencing production from No. 9 mine?

A We have some production scheduled for April, and that will escalate to about 125,000 tons by the 1st of July '74.

Q Now, it was originally contemplated when the scheme was discussed last fall in Japan that No. 9 wouldn't come on until 1975, is that right?

A Yes, that is correct --- '75? No, I don't think we ever had reserves in that -- no, I think we have always been working to the exhaustion of the No. 8 reserves to the end of this year.

Q Well, again I am looking at one of these plans that you say may have been one of many; when you were looking at one-third, one-third, one-third you were presumably looking at No. 9 in 1975?

A Well, I think that is correct at that point, simply because we had not accelerated production from No. 1.

Q That's right.

A No. 8, that's correct, yes.

Q So the earlier opening of the No. 9 is it the result of some technological change that enabled you to move more quickly, or is it the need to move into it because of the much heavier demand now being made --

A Oh, it is the need, no question about it.

Q There is no problem with the lead time?

A We don't see any, because we have this reserve both at No. 8 and the Barrett that I referred to, that give us sufficient reserves to carry into No. 9, we think, in a very orderly way.

Q When you started making your application to the government in the fall of last year and the early beginning of this year for permission to open No. 9, it was on the basis that this would be 1975 production, is that right?

A Yes, I think that is correct.

Q And you're satisfisfied that your technically able to advance the opening of No. 9?

A Oh, I think there is no question about it. We have the plans and I don't think there is any doubt about that.

Q Who is going to be responsible for the over-all management of the mine?

A The management at Grande Cache.

Q What individual?

A Mr. Johnson.

Q And will there be someone immediately under Mr. Johnson with supervision of the entire strip operation?

A Oh, yes.

Q Do you have anyone now qualified in that area?

A We are building a staff; we have planning people, which is the matter of the greatest urgency at the present time, and we have a couple of excellent candidates, one of whom we will have on site well in anticipation of the arrival of the equipment and the commencement of that undertaking.

Q When the No. 11 seam in the No. 2 area was to be opened, was there then, when it was decided to go into it, any thought of going through the mountain to the No. 9 side?

A Oh, I think that evolved in this way; there were some studies made of completing the development of No. 4 seam, which would take them on over to Sheep Creek, and then using that as a conveyor way, but Mr. Johnson said yesterday the heaving conditions, the maintenance implications of a large conveyor belt, really a life line for the operation through that -- ruled that possibility out. I think he is probably responsible for bringing No. 11 seam to our attention as the most logical way to accomplish this because of the both and roof and floor conditions in No. 11 seam. This would permit, as we see it, now that we have varified the presence of the coal through the entire section to be driven, a relatively maintenance-free passageway, and so to that extent it is

A (continued) economical, and makes a very feasible solution.

Q When the decision was made to mine the No. 11 seam, did the prospect of carrying through to the other side play any part in that initial decision?

A Well, I think it really evolved; we had a plan to build the road, we had developed the specifications, the job was put out for bid, and even at the time the award was made, the contract contemplated complete construction of a full-scale haulage road from the preparation plant to the shop site up on No. 9 mine. But as development work progressed in No. 11, and Mr. Johnson put forth his case, we decided this thing meritted a great deal of consideration. We brought in an engineering firm in Toronto to -- who were well qualified in the conveyor installation area, to kindly confirm our first reaction to this thing, to make an indepth study, to give us some costs, both capital and operating, and the indicated savings are so very substantial that we felt that the plan simply had to be very carefully considered. It was at that point we embarked on the drilling program to make certain that No. 11 seam does in fact pass through the mountain without serious faulting or folding or other interruption that would make an unworkable transitway, and as all of these facts came into place, and the thing still looked feasible, we then have presented this now to the provincial authorities as the way we propose to transport the coal. We do, of course, intend to have a first-classroad onto the property, and this will not effect the construction of road beyond Sheep Creek, but it will obviate the construction

A (continued) of a segment of the road from the preparation plant to No. 8 road, which is already in. We won't rebuild that. We already have completed the section of the road now from No. 8 down to Sheep Creek.

Q And are your plans for No. 9 in any way dependent upon the success of penetration in No. 11 and installation of conveyor system?

A I would say that the costs that we have projected are decidely dependent upon it, but with the roadway we are not dependent on the ultimate success of that, we can haul the coal just as we planned in the first place.

Q But it will be more costly?

A It will be more costly because there is both mileage and cost per ton, the unit costs are higher too.

Q And are you building the roads to the standards that you would have built them to if it all had to come out by road?

A Well, the road from the Zone 5 on No. 8 has a 60-foot running top, and that is being -- that was the standard that was specified when the job was let. It must be remembered that this road is also going to serve the Barrett, from which a very substantial tonnage would be hauled. So that the road that is being built is a necessity. The real change in road construction is coming about by not reconstructing the section from Zone 5 on the No. 8 road back to the preparation plant. In other words that would be a somewhat lower standard road, chiefly in order of width, because the trucks that are up there now are hauling about 30 tons, and the trucks we would

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A (continued) be putting on would be hauling only 25 tons.

Q But if you aren't successful in going through No. 11 or until you get to No. 11, you are going to have to use that road?

A Yes, that is right.

Q My initial question came to this, Mr. Fulton, when the decision was made to abandon No. 10 seam and move to No. 11, that was predicated upon using No. 11 as a developed mine?

A Yes, indeed it was. That was Mr. Johnson's assessment of the conditions, as he explained yesterday, that it was a much more feasible producer.

Q And it was when you got into it, when you started into it, that the idea of putting in the conveyor came in?

A That is correct.

Q Mr. Fulton, when you took over operations in early '72, were you familiar with the Weir Co. operating reports, the Weir Company operating reports that indicated the necessity for a new underground mine opening in 1973?

A I read those reports, I think though I could categorize the situation when I came on the scene as one of looking at things as they were and most of these reports, while they were read, they were pretty much on the shelve because a lot of things had happened, we were assessing the blocks of coal that had been developed, the things that we felt had to be done to stabilize the situation, 2 and 5 at that time did have reserves and I don't think that the development of a new mine was uppermost in our mind, we were working very hard to straighten out the ones that we had.

Q Mr. Fulton, you of course are familiar with the company's

Q (continued) brief which is Exhibit 35?

A Yes.

Q Now did that memorandum come to your attention, that memorandum from the Commissioner, did it come to the company's attention?

A I am sure it did, Mr. Stevenson. I recognize most of the subjects on here, I can't say that I've seen these exact pages but I ---

Q --- you are unfortunately having to answer for the company, did that come to the company's attention?

A I think I would say that it did in essence.

MR. STEVENSON: May we mark that as Exhibit 36 please?

MEMORANDUM MARKED EXHIBIT 36.

Q MR. STEVENSON: Now one of the questions in that memorandum relates to cost projections and income projections and that is the matter we have already indicated Mr. Sabey wanted the Commissioners to reserve. Looking at your brief, page 9, there was one question I wanted to ask you Mr. Fulton, at the bottom of page 9:

> "The creation of a new mining town in an isolated section of the Province was recognized by McIntyre and the Province as a formidible financial and general risk commitment to both of them."

Now on what do you base that conclusion or suggestion?

A Well, I think it is somewhat self evident. A pioneering effort of this magnitude where you are setting up an operation in an area with no people, no experienced coal miners, none of the things that so often one has in the development of a

A (continued) new property in an established mining area are manifestly contingent upon some risk.

I think in the case of McIntyre, it would have been their first entry into the coal mining business which, from my own experience in setting up new operations, that has always been problems and some educational process and periods involved. Estimates are made for capital and operating, they seldom stand up. I think these days even less so than in the past when some of these things were more predictable. I don't think, in the company's standpoint, it was too difficult to visualize some of the uncertainties. The Province certainly had a tremendous stake in this. Any time that a town of the scale and so forth of Grande Cache is established on the basis of one industry and one company, there has to be a certain recognized risk, we all recognize I think the importance of broad economic basis where more than one industry is contributing to the livelihood of the community. These are the factors that I would say went behind that statement.

Q You are saying the Province should have recognized the risk, whether it did or not?

A Well, I really feel the Province should be commended as a forward looking governmental body. These things, if nobody starts them, they never get done, and somebody has to put the foot forward to get things started. I think the Province correctly recognized the staffing problem, the labour problem and, if I may say so, they certainly went all out in providing

A (continued) the living facilities for that, for that operation. Certainly some errors of judgment can be well recognized in hindsight but I think it was a remarkable contribution to the overall plan.

Q What errors in judgment did you have in mind?

A Well, I think some of the things that were covered yesterday, perhaps a little too much enthusiasm and ambition in terms of commitments, things like that that cause some of the delays and problems that we have all ---

Q --- do you appreciate that if the Province did not proceed or appears not to have proceeded with the implementation of the new town planning until this long term contract was announced?

A Oh yes, yes.

Q And do you feel they were still assuming some risk?

A I really don't believe that the long term contract made that much of a difference. It has the connotation of security, it certainly was useful to McIntyre in financing but I think at the time it must have been recognized as a large, large measure of security for the entire undertaking.

I think though that the people in the Province at the time are sophisticated enough to know that a contract per se, no matter how long or whatever, is no ticket to absolute security. I think they probably recognized that there were some risks in it.

Q Except to the extent that they would rely on McIntyre's ability to enter into a contract that would be fulfilled?

A Oh yes, no question about that.

Q And to some extent that must have been done?

A I would say so.

Q And tell me, Smoky River Investments, is that a completely owned subsidiary of McIntyre?

A It is.

Q Does it have any assets of its own?

A Well, it has the advances that have been made on the various housing phases. McIntyre is the guarantor of the mortgage rather than the ---

Q --- Smoky River investments is under an obligation, a buy back obligation in certain cases. Does it have assets to answer for those?

A No, not at the present time.

Q I think I probably asked you this earlier, there is no doubt that a lot was predicated on this fifteen year contract, Mr. Fulton?

A Oh, I don't think there is any question about that.

Q And did you know that the Province, for example, had granted certain of the leases conditional upon a long term contract being entered into?

A I honestly wasn't aware of that, no.

Q And there is no doubt that from the company's point of view they thought that a fifteen year contract was viable?

A They did indeed.

Q And you have indicated I suppose from an earlier statement what went wrong with it, do you want to comment on what went

Q (continued) wrong with it?

A Well, very briefly, we were selling the coal at a loss and did not see any way under the long term contract arrangement where we could negotiate a price that would correct that.

Q Would you disagree with the proposition that there are approximately nine million long raw tons recoverable in the No. 9 mine area at today's prices?

A I think that checks very close to it, yes.

Q And would you agree that there is somewhere in the area of seven to nine million long raw tons in recoverable underground areas if we ignore 1, 3 and 14?

A Yes, I think that would be a generous figure.

Q And in the second case, we have to apply some judgment as to what portions of that is economically recoverable?

A Yes.

Q And have you done that?

A Well, I, I think Mr. McKelvie will give you the detailed figures but we have a proven blocked out deep reserve.

Q You have given a very optimistic assessment of the situation in your brief for the future, Mr. Fulton, what do you think that the future does hold?

A Well, I have a good hand in writing so I will have to stand behind it.

Q It is predicated, to a large extent, upon an improvement in the coal market, isn't it?

A Yes, it is, but as I mentioned before, I think we are dealing with a product here that might be compared to copper or

A (continued) things like that that the society we live in simply has to have and I think we will see the price adjust ---

Q --- and your underground production in particular, you have to get an increase in market price to deal with that, don't you?

A Oh yes, but that applies to the other too. We have wage increase to come along and so forth, I mean all these costs are going to increase.

Q Your cost control on top is better ---

A --- oh yes, because labour represents a small factor of the cost.

Q And do you consider it the company's responsibility to keep underground mining?

A Indeed we do.

Q Now Mr. Fulton, if we say to you, in view of your optimism and your plans and expectations, what role do you see Government giving you or state giving you in assistance in carrying out those operations?

A Well, I can think of two or three things. One is to keep the railroads running and beyond that, I think any real help we can get in freight rates. Alberta is an area that lives on pulp commodities and we are not only talking about coal, we are talking about sulphur, oil, wheat, and if we could really get some meaningful negotiations with these trans-continental railroads, I think that would do more, because this coal will sell. It is an excellent coal, it is comparable with the best West Virginia coals and it is just the distance and the freight

A (continued) that is keeping it from these other markets, and I can't think of anything within the capabilities in our Province that could really help this industry more like to get these rates down where they are in the United States, like half a cent a short ton mile, that kind of thing, where you can haul coal from Wyoming to Illinois or from Montana into, they actually sent a train load of coal from Montana to West Virginia not too long ago, but these are the kind of rates that the steel companies have to have. Unless they see what they are getting in, they just won't talk price, it is a terribly important thing I think for the future of this whole operation, and the Province certainly has the position in the country and so forth, and its dependence on these type of things, I think it very logically points in that direction. That I think would be our number one choice in assistance.

Q You are not suggesting as an alternative that the Province ask for an embargo on the importation of American coal?

A Well, that is not my department.

Q What else do you see the Government doing to assist McIntyre?

A Well, there is another very specific point and that would be to streamline their permitting procedures. They now have several Ministries and several Commissions involved in studying and granting the necessary permits to implement for example No. 9 development. We have got, I suppose what you might call, a master mining permit in July with a great many conditions in it, and some of these conditions go quite

A (continued) far afield. We have to study the habits of certain animals, what dislocations are going to result from that and so forth. I am not stopping at this because I recognize these are very valid considerations, it is a beautiful area up there and we certainly don't want to desecrate it but I think it is really more of an administrative streamlining, if I may use that phrase, where within the Government the various inputs that are required are headed up by someone and the lessee then can go to that someone and find out what their requirements are, supplement the information and supply it if necessary, get the answer and get it started.

When you have contractors on the scene, when you have a lot of people and so forth, you have to have some of these appearances and so forth to keep the cost down and to keep the job moving, it is not only the money it is the season and these are factors that I think which had receptive audiences from Mr. Peacock and Mr. Dickie in this respect, but there are other Ministries involved, if we can get some help in that area, I think probably it would have to come through legislative action where the authorities of different groups are recast and so forth so that the individual developing these mines, and after all we are dealing with coal leases which means I suppose that you're supposed to mine coal from it, can be implemented in a more efficient manner than the present procedure.

Q It is not so much the requirements as having to satisfy

Q (continued) several different people?

A Well, that is right, and it is, I am sure it can be done more efficiently and still meet the requirements of the law.

MR. STEVENSON: Those are all the questions I have.

MR. CRUMP: I may say, Mr. Fulton, that the latter part of your remarks have a very familiar ring and I wondered if your staff had brought to your attention a paper that was presented to the Canadian Conference on Coal in Victoria, B.C., on September the 18th "Competitive Position of Western Canadian Coal in Eastern Canada"?

A Yes, I saw that.

MR. CRUMP: It was a very interesting paper.

A Yes sir.

MR. CRUMP: Mr. Ingle, you had some questions, without attempting to lead your examination in any way, yesterday there is a question you asked a company witness which was left unanswered in regard to Neptune terminal and having walked over Neptune myself and been on ships where the were loading coal and unloading on Yokohama, I am wondering where you were going. Since you were unable to get an answer yesterday, perhaps Mr. Fulton can give you an answer?

MR. INGLE: Thank you, Mr. Chairman. I may say that Mr. Stevenson has already covered most of the questions that I had hoped to ask the witness but there are a few supplementary areas that I would like to direct questions to.

MR. INGLE EXAMINES THE WITNESS:

Q Mr. Fulton, you have told the Commission that in the discussions

Q (continued) you had with the union when you arrived at Grande Cache following the decision to close No. 5, the suggestion was raised that No. 5 could be pillared out and I wondered, Mr. Fulton, if in the decision which had been made on, is it January the 23rd I think, other ---

A --- you are speaking about the director's meeting?

Q Yes.

A Well, I thought it was later than that but ---

Q --- well, I am not sure of the date, at the meeting at which the decision was made,were you aware that there were two areas of No. 5 which were ready for pillaring?

A Yes, we were Mr. Inglé, I can assure you that we went through all aspects of this, of this very thoroughly. No. 5 mine had a tremendous amount of money spent on developing that coal.

Q And do you know, do you recall how much coal was available in those two areas?

A I wouldn't say in tonnage but we had developed considerable tonnages of coal in No. 5.

Q And you decided despite the fact that those areas were ready for pillaring that No. 5 mine should be closed without it being pillared back?

A Yes sir.

Q And that was largely because, as I understand your answer to Mr. Stevenson, because of the time?

A That was correct, yes.

Q Thank you. You used the term " reserving coal", I am not sure that I understand what you mean by "reserving coal"?

A Could you give me a little more, that is out of context.

Q I understood you to say in response to a question from Mr. Stevenson that with respect to certain contract commitments you were reserving coal?

A Oh yes, I see, we were setting aside. For example, in the current negotiations without the Japanese million and a quarter with the anticipation that we can produce somewhere between three hundred and fifty and four hundred and fifty thousand additional tons which of course, part of it is not committed to Bethlehem, it was set aside you might say.

Q Yes, it has nothing to do with stockpiling?

A No, no.

Q Now perhaps this might be a good point to - I will return to the matter raised by Mr., by the Commissioner with respect to the possibility of stockpiling. If there should be an interruption in the transport of coal from the mine to the market, either at the mine site or because of a strike perhaps or stoppage of work at Neptune, would consideration be given to the stockpiling?

A Well, that is a hypothetical question.

Q I appreciate that.

A May I answer it this way, no two sets of conditions are the same, and I would like very briefly to review the times we had stockpiled within the last year and perhaps I can point out the sets of conditions that did prevail.

The first sequence of stockpiling occurred during the summer, June and July, when the Japanese

A (continued) seamen went out on strike. At that time we were committed to take coal into Vancouver, in other words the railroads were operating. We built up a very, very large stockpile of cleaning coal at Neptune. They went far beyond the storage areas as designed, which necessitated recovery equipment, front end loaders and things like that. We lost an awful lot of coal as a result of this. In early August the dock workers were out and since the longshoremen dumped the unit trains, it was not possible to haul coal into Neptune so then we stockpiling exercised our mine and we have clean coal and we have raw coal pretty well piled up there. Then Parliament finally took action and if you recall, just before Labour Day, they got back to work and so then we started literally cleaning up the piles.

Most recently we witnessed this remarkable sequence of rolling railroad strikes which finally worked into a complete stoppage and then the action which the Government took and, in the first examples that I've given you, we never gave any consideration to shutting the mines down. One basic reason for this was that we were behind in our shipments of coal to the Japanese, the preparation plant was not able to handle the coal at the rates that would give us proper recovery if we were to accumulate stockpile, so we washed most of the coal that was produced and, as distinct from this time, we had most of the coal in clean form stock-piled at the mine.

This time, conditions were quite

A (continued) different. The rolling strike started at the end of July and apparently the union lost control of its men because, according to the papers anyway, because the strikes that were supposed to be in Montreal were also occurring out here, so that our train cycles gradually got to the point where we were getting a train back about once a week and losing production during August until finally the railroad shut everything down. Then we watched the processes of parliament and after they passed the law, it took another week before they started to enforce it and it was on Monday, September the 10th that, we had constant representations to Neptune watching this thing daily and when the militants over there decided that they weren't going to honour the subpoenaes, they were going to try and bring the whole thing down again if they were thrown in goal or fined, we just assessed the situation as, to some extent, out of control and that we may be looking at weeks or we may be looking at days but that we had enormous stocks of coal, six weeks or more supply, all three trains were loaded, one of them was at Kamloops, one at Jasper and one at, in the lower mainland, and it just didn't make sense to keep pouring money into those piles as money, in a matter of speaking, is about nine and three quarter percent interest because (unintelligible) so we just reached a point, with the outlook such as it was, that we didn't see any justification for putting more cash into those piles and we decided at that time that until the situation clarified, we really had no choice but to suspend

A (continued) production.

We finally got out first train dumped a couple of days later and when the third train was dumped, we could see our way clear and of course we reactivated the operation the following Monday. So what I'm trying to explain is that depending upon the circumstances, I think the one thing we have consistently done is stockpiled to the limit in each of these cases, we don't want to disrupt the operation, we certainly don't like lay-offs and that would certainly be our policy in any of the situations that I think, if you can imagine, but as to how long we could do it depends on circumstances. Stockpiling, per se, is not desirable, the coal loses its properties and it is not a good way to conduct the operation but these things occur and they have to be dealt with.

Q Well, I would like to pursue that a little further if we had time. The company certainly is interested in production sufficient to meet its commitments under the contract?

A No question about it.

Q That might just outweigh some of the ---

A --- we are in harmony with our commitments now, Mr. Ingle.

Q Now, a couple of other questions, Mr. Fulton. You have some interests in Australia?

A We have a subsidiary company over there, we own no properties.

Q I understand it is exploratory work or ---

A That is correct, yes.

Q For what purpose?

A Non-ferrous metals.

Q Pardon me?

A Non-ferrous metals.

Q Not coal?

A No.sir.

Q Now finally, Mr. Fulton, you have been asked by Mr. Stevenson several questions with respect to the outlook for Grande Cache operation and in particular the underground operation. I understood you to say that in twenty years time, the ratio between underground and surface mining might be fifty-fifty?

A Well, I am speculating because that is where the reserves are. Personally, and there is more competent people even in this room to discuss this than I, I think a new technology will be developed that would make a great deal - that is not presently accosted or within the scope of our facilities and capabilities, I think they are going to make it economic. And I can see, I mean if further activities are envisaged for hydraulic mining and so forth, it won't make any difference whether you are on the surface or underground, you can produce as much coal from then, these are the things that I think are very interesting and so that I think that to speculate on what the ratios would be, coal is deep, most of it, and sooner or later the ratio is going to tip back the other way.

Q Mr. Johnson yesterday I think gave us his opinion that the underground mining there to be for the next twenty-six years?

A I have a lot of confidence in Mr. Johnson. If he says so, he ---

Q --- you wouldn't disagree with him?

A No sir.

MR. INGLE: Thank you, Mr. Fulton.

MR. CRUMP: Thank you, Mr. Ingle. Mr. Patching have you any questions of the witness?

MR. PATCHING: No.

MR. CRUMP: Mr. Graham?

MR. GRAHAM: No, I have no questions.

MR. CRUMP: Well, I only have one or two, Mr. Fulton. In the company brief, on page 37, the text closes with the statement:

> "The Smoky River coal deposits representing as they do the largest known source of high quality low volatile coking coal next to those in the Eastern United States will provide a strong and lasting employment base upon which the Town may grow and prosper."

Now that large known source, I presume Mr. McKelvie will speak to that?

A Well, I think Dr. Landes already has sir, but those would be the figures that we would be relying upon.

MR. CRUMP: And again referring to your brief, the, I would just like to check the dates on page 30, the decision on No. 5 was taken on January the 5th at the Board meeting, January the 25th?

A January the 25th, yes sir.

Q At the Board meeting on that day?

A Yes sir.

Q And by the chronology in the front, I don't think you were again, you were in Japan after that until it is shown on page 14, the negotiating team in Japan March the 23rd to April the 12th?

A That is correct sir.

MR. CRUMP: You weren't in Japan then?

A I was not.

MR. CRUMP: Well thank you. Mr. Stevenson, have you anything further?

MR. STEVENSON: No sir.

MR. CRUMP: Well thank you very much for coming, Mr. Fulton, we appreciate the answers that you have given today.

A Fine sir.

MR. CRUMP: It is just possible, under the circumstances, that we may have to ask you to come back.

A I understand.

MR. CRUMP: And if we do, why I think we can arrange a suitable date. I know you have commitments tomorrow, as some others here do, but we will be in touch with you in that regard.

A Fine sir, thank you very much.

MR. CRUMP: Thank you.

(Witness retires.)

MR. CRUMP: Now gentlemen, I would like to have a meeting of, Mr. Ingle?

MR. INGLE: Sir?

MR. CRUMP: Have you a question?

MR. INGLE: No sir.

MR. CRUMP: I'm sorry, you are jumping. The Commission would like to meet immediately after adjournment with the various counsel representing the parties before us here.

(The Hearing adjourned at 1:00 P.M.)